Humpty's Restaurants International Inc.

Humpty's TM

Annual Report 2008

Corporate Profile

The Company

Humpty's Restaurants International Inc. (HRII or the Company) is one of Canada's leading franchisors of mid-scale full-service family restaurants and one of the nation's few publicly traded franchising companies to focus exclusively on the family segment of the chain restaurant sector.

Corporate Mandate

HRII's corporate mandate is to create enhanced shareholder value by leveraging an inherent operating expertise, superior franchise system and status as a public company to become one of Canada's leading mid-scale family restaurant brand owners and franchisors. To manifest this goal HRII has undertaken an enhanced but managed growth strategy to consolidate the full-service family segment of Canada's foodservices industry.

History

Humpty's Restaurants International Inc. originated October 1990 as Healthy Eating Inc. – a Calgary-based A.S.E. listed Junior Capital Pool (JCP) formed to acquire the shares of Humpty's Egg Place Franchises Inc. The Company is registered as a franchisor in Alberta under the Alberta Franchise Act S.A. 1995 c. F-17.1, and is a reporting issuer to the Alberta and British Columbia Securities Commissions. HRII shares are listed and trading on the Canadian Venture Exchange under stock symbol HMP.

Humpty's Egg Place Franchises Inc. originated in 1982 as a private Alberta-registered franchising company formed to hold all rights, trademarks, assets and franchise privileges attributed and granted to the Humpty's Family Restaurant chain, brand and concept. The company was formed subsequent to being granted franchise privileges by the Alberta Securities Commission in 1982 under the then current Alberta Franchise Act RSA 1980 c. F-17. (See Alberta Franchise Act S.A. 1995 c. F-17.1 for current version.)

Humpty's Family Restaurants originated in 1977 as Humpty's Egg Place an all-day breakfast restaurant created by Don and Jan Koenig, located in the Lower Mount Royal district of Calgary, Alberta. Within six (6) years of initial opening, four (4) additional Egg Places were established as corporate operations. Humpty's Egg Place Franchises Inc. (see above) awarded its first Humpty's Egg Place franchise in 1986 for a outlet to be located in Red Deer, Alberta. Three (3) additional franchises were awarded that year for outlets to be located in the Lethbridge and Edmonton areas of Alberta. In 1988, restaurant operations were renamed Humpty's Family Restaurants to better reflect an emerging focus on family patronage and a menu that included an extensive selection of all-day breakfast, lunch, dinner, appetizer and dessert items. The chain is still most closely associated with its unique breakfast-related menu selections.

President's Message to Shareholders

We are pleased to present to you our Company's operating results for 2008. The positive results reflect our continuing efforts to solidify our position in the market place and strengthen our financial status. Our net income of $503,195 recorded in fiscal 2008 represents only a marginal decrease of .8% from 2007 when we recorded $507,284 net earnings.

Our Operating Results

Total revenue for fiscal 2008 was $7,004,516, which represents a 44.8% decrease from fiscal 2007 ($12,681,360). The decrease was largely due to the sale of our high volume Restaurant, Convenience Store and Gas location (Red Deer, AB) on December 1, 2007. For the eleven months from January – November 2007 this location contributed $5,902,806 to the total revenue. Royalties and Advertising fees increased 3.1% and 2.8% respectively, which indicates overall increased sales in our Franchise locations for 2008.

Despite the decrease in revenues in fiscal 2008 our operating expenses recorded a very positive decrease. In fiscal 2007 operating expenses were 97.7% of revenue. This compares to operating expenses for fiscal 2008 being 91.3% of revenue. This significant decrease in operating expenses contributed an increase of $321,628 to earnings (before income taxes). The expense item recording the most positive improvement was "Lease settlements and franchise assistance". This category was reduced by $414,096 or 67.2% in fiscal 2008. The plan for 2008 was to reduce this category in the 25% - 30% range; therefore, we are very pleased to have greatly exceeded that projection.

It should be noted that even though earnings for fiscal 2008 were very close to 2007 these earnings were over 90% earned whereas in 2007 over 50% of our earnings were from the sale of property and equipment.

Normal Course Issuers Bid

Since September 2002 the Company has been repurchasing its capital stock through a Normal Course Issuers Bid. Annually since 2002 including 2008 the Company has continued to renew its Bid to repurchase this stock. In 2008 the Company repurchased 22,000 shares bringing the total to date to 565,000 or 3.72% of the original outstanding total. By repurchasing these shares for cancellation the Company continues to enhance shareholder value.

Our Market Position

2009 marks the 32nd year of the Humpty's System in Canada. Our market share on December 31, 2008 was forty-eight (48) locations operating, one location closed for renovations and one new location opening (Calgary, AB) in July 2009. The Company currently owns and operates four locations. One of these locations will be franchised in December 2009. The new location opening in Calgary in July 2009 will also be corporately owned and operated.

Looking Forward

The current downturn in the economy has had some negative impact on our sales particularly in northern B.C. and Alberta, although not to the extent that it has for high-end restaurants. Consumers continue to dine out, as it is still an "event", however they are not spending as much. Humpty's will benefit due to our mid-scale casual restaurant classification, offering similar products at lower prices. The Company has received more inquiries for franchise information in the past five months then in the previous two years. When there is a downturn in the economy there are layoffs. Many of those who receive severance packages begin looking for business opportunities.

We believe the economy is going through a market correction and the positive impact is that being an entrepreneur is now affordable again. Whether it's the cost of leasing, material or skilled trades people, costs have almost reverted to where they were a few years ago. Many of our locations will be conducting renovations in 2009 because now it is more affordable and trades people are available.

The extreme labour shortage experienced in Western Canada for the past three years has improved substantially. We are now able to staff our locations with more qualified employees thus improving our service and quality. This will further enhance our ability to maintain our revenue stream over the next year.

Summary

If we stay focused on profitability growth we will be prepared for expansion opportunities when they present themselves.

We are proud to be associated with a team of dedicated staff and Franchisees who continually contribute an admirable effort to deliver services that exceed our customers' expectations. We acknowledge those staff and Franchisees for their continued commitment and dedication to the Humpty's System. We also appreciate your continued support as shareholders of our Company.

Don Koenig
President and Chief Executive Officer

HUMPTY'S RESTAURANTS INTERNATIONAL INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2008

hudson LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To: The Shareholders of
Humpty's Restaurants International Inc.

We have audited the balance sheet of **Humpty's Restaurants International Inc.** (the "Company") as at December 31, 2008 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2007, and for the year then ended, prior to adjustment for the changes as described in note 12, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 11, 2008. We have audited the adjustments to the 2007 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Hudson LLP

Calgary, Alberta
April 27, 2009

HUDSON LLP
Chartered Accountants

HUMPTY'S RESTAURANTS INTERNATIONAL INC.
BALANCE SHEET

DECEMBER 31		2008		2007 (As restated)
ASSETS				
CURRENT				
Cash	$	-	$	178,039
Accounts receivable		346,215		520,749
Inventory		138,469		160,616
Prepaid expenses		31,617		86,930
Current portion of notes receivable (note 4)		156,686		175,437
		672,987		1,121,771
NOTES RECEIVABLE (note 4)		489,758		462,024
PROPERTY, PLANT AND EQUIPMENT (note 5)		3,154,018		3,273,270
FUTURE INCOME TAXES (note 6)		355,167		376,316
	$	4,671,930	$	5,233,381

HUMPTY'S RESTAURANTS INTERNATIONAL INC.
BALANCE SHEET

DECEMBER 31		2008	2007 (As restated)
LIABILITIES			
CURRENT			
Bank indebtedness (note 7)	$	18,473 $	-
Accounts payable and accrued liabilities		242,741	389,122
Income taxes payable		89,218	156,661
Note payable		-	300,000
Current portion of long term debt (note 8)		434,024	487,417
Current portion of capital lease obligation (note 9)		-	30,394
		784,456	1,363,594
LONG TERM DEBT (notes 8 and 14)		2,307,742	2,777,732
CAPITAL LEASE OBLIGATION (note 9)		-	9,970
		3,092,198	4,151,296
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (note 10)		1,067,484	1,069,089
RETAINED EARNINGS		512,248	12,996
		1,579,732	1,082,085
	$	4,671,930 $	5,233,381

Contractual obligations (note 17)

Approved on behalf of the Board

Director ______________________ Director ______________________

HUMPTY'S RESTAURANTS INTERNATIONAL INC.
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31		2008	2007 (As restated)
REVENUE			
Restaurant	$	3,834,333 $	9,449,312
Royalties		1,777,645	1,723,745
Advertising participation fees		785,362	763,711
Rebate and other		499,620	581,086
Rental		101,556	103,506
Franchise sales and renewals		6,000	60,000
		7,004,516	12,681,360
EXPENSES			
Restaurant		3,621,003	9,110,188
General and administrative		1,260,851	1,290,953
Advertising and promotion		826,810	859,364
Amortization		288,272	279,437
Lease settlements and franchise assistance (note 15)		201,714	615,810
Interest on long term debt		195,982	237,352
		6,394,632	12,393,104
EARNINGS BEFORE THE FOLLOWING ITEM		609,884	288,256
GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT		61,310	399,856
EARNINGS BEFORE INCOME TAXES		671,194	688,112
INCOME TAXES			
Current		146,850	75,455
Future		21,149	105,373
		167,999	180,828
NET AND COMPREHENSIVE EARNINGS		503,195	507,284
RETAINED EARNINGS (DEFICIT), beginning of year			
As previously stated		129,895	(369,754)
Prior period adjustment (note 12)		(116,899)	(113,366)
As restated		12,996	(483,120)
EXCESS OF SHARE REPURCHASE OVER STATED VALUE (note 10)		(3,943)	(11,168)
RETAINED EARNINGS, end of year	$	512,248 $	12,996
BASIC AND DILUTED EARNINGS PER SHARE (note 11)	$	0.034 $	0.035

HUMPTY'S RESTAURANTS INTERNATIONAL INC.
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31	2008	2007 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net and comprehensive earnings	$ 503,195	$ 507,284
Items not affecting cash		
Amortization	288,272	279,437
Future income taxes	21,149	105,373
Gain on sale of property, plant and equipment	(61,310)	(399,856)
Losses on lease settlements and franchise assistance	20,846	100,828
Impairment write-down of restaurant assets	38,496	42,603
	810,648	635,669
Change in non-cash working capital items		
Accounts receivable	148,474	(104,538)
Income taxes	(67,443)	75,455
Inventory	22,147	76,519
Prepaid expenses	55,313	3,859
Accounts payable and accrued liabilities	(146,382)	27,604
	822,757	714,568
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal repayment of notes receivable	175,790	91,496
Notes receivable advanced	(175,803)	(538,903)
Proceeds on disposal of property, plant and equipment	435,681	934,591
Purchase of property, plant and equipment	(581,886)	(441,329)
	(146,218)	45,855
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (repayment) of note payable	(300,000)	300,000
Repayment of long term debt	(692,139)	(580,980)
Proceeds of long term debt	165,000	-
Repayment of capital lease obligation	(40,364)	(26,941)
Share repurchase, net of commissions	(5,548)	(18,100)
	(873,051)	(326,021)
CHANGE IN CASH POSITION	(196,512)	434,402
CASH (DEFICIENCY), beginning of year	178,039	(256,363)
CASH (DEFICIENCY), end of year	$ (18,473)	$ 178,039
OTHER INFORMATION		
Interest paid	$ 195,982	$ 237,352
Income taxes paid	242,721	-

1. NATURE OF OPERATIONS

Humpty's Restaurants International Inc. (the "Company") is incorporated under the Business Corporation Act of the Province of Alberta and is operator and franchiser of Humpty's Family Restaurants and Humpty's Classic Cafes. At December 31, 2008, the Company had 43 franchise locations and 5 corporate locations (note 18).

2. CHANGE IN ACCOUNTING POLICY

On January 1, 2008, the Company adopted, without restating prior periods, the following standards of the CICA Handbook: Section 1400 - "General Standards of Financial Statement Presentation", Section 1535 - "Capital Disclosures", Section 3031 - "Inventories", Section 3862 - "Financial Instruments Disclosure" and Section 3863 - "Financial Instruments Presentation".

Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements to fiscal years beginning on or after January 1, 2008. The implementation of this new standard did not impact the Company's financial results, but did result in additional disclosure.

Section 1535 establishes standards for disclosing information regarding the capital of the entity and how it is managed. The section specifies the disclosure of i) objectives, policies, and processes for managing capital by the entity; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance. The implementation of this new standard did not impact the Company's financial results, but did result in additional disclosure. See note 20 for related disclosure.

Sections 3862 and 3863 replace section 3861 "Financial Instruments - Disclosure and Presentation" which revises and enhances financial instrument disclosure requirements and leaves unchanged its presentation requirements. The objective of Section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments to the Company's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows. The implementation of these new standards did not impact the Company's financial results, but did result in additional disclosure. See note 19 for related disclosure.

Section 3031 is a replacement of the CICA handbook Section 3030. Under the requirements of the new standard, inventories are measured at the lower of cost and net realizable value. Cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects are assigned by using a specific identification of their individual costs. Consistent use of either first-in, first-out or weighted average cost is prescribed for other inventories, with a reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories. The implementation of this new standard did not materially impact the Company's financial results. See note 3 for related disclosure.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Items requiring the use of significant estimates include accounts receivable, notes receivable, property, plant, and equipment, future income taxes, accounts payable and accrued liabilities and long term debt.

Cash

Cash consists of balances held with financial institutions.

Inventories

Inventories are valued at the lower of cost and net realizable value, on a first-in first-out basis.

Notes receivable

Notes receivable are stated at carrying value unless management believes that there is reasonable doubt as to the timely collection of principal and interest. The carrying amount of a note receivable classified as impaired is reduced to its estimated fair value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Buildings	26yr Straight-line
Furniture and fixtures	20% Declining balance
Computer equipment	50% Declining balance
Equipment	20% Declining balance
Automotive	35% Declining balance

Leasehold improvements are amortized straight-line over the remaining term of the lease, plus one month.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

Long-lived assets

The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

Revenue recognition

Restaurant revenue is recognized when services are provided.

Royalties and advertising participation fees are based on sales volume of the franchises and are recorded as earned when collection is reasonably assured.

Rebate revenue is recognized in the period that the related purchases of goods are made.

Rental revenue is recognized over time the service was provided.

Revenue from franchise sales is recognized when the restaurant opens. Revenue from franchise renewal is recognized when the renewal period starts. Revenue received from franchised store locations not opened at year end is recorded as deferred revenue.

Lease settlements and franchise assistance

The Company incurs costs related to assistance for under performing locations or new locations or to settle leases on store closures. The Company is contingently liable as head lessee under lease agreements with landlords for many of its franchises. The Company measures costs associated with lease settlements at fair value at the date the Company ceases to use the rights conveyed by the lease.

Per share information

Per share information is calculated on the basis of the weighted average number of shares outstanding during the period. The Company uses the treasury stock method of calculating per share amounts whereby any proceeds from the exercise of in-the-money stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

Stock-based compensation

The Company has a stock option plan, which is described in note 10. Stock options issued by the Company are accounted for using the fair-value based method of accounting. The fair value of options issued to directors, officers, employees, consultants and service providers to the Company is charged to income with an offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes options pricing model. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. Unvested stock options issued to consultants and service providers are revalued each reporting period. Forfeitures of stock options are accounted for as they occur.

Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

Financial instruments

The Company has classified their financial instruments as follows:

Cash is classified as held for trading and is valued at fair market value with any unrealized gains and losses being included in net income in the period in which they arise.

Accounts receivable and notes receivable are classified as loans and receivables and are initially valued at cost, which is the fair market value upon initial recognition, and subsequently measured at amortized cost using the effective interest rate method.

Accounts payable, notes payable and long term debt are classified as other liabilities and are initially measured at fair value, and subsequently at cost or amortized cost using the effective interest rate method.

4. NOTES RECEIVABLE

	2008	2007
Notes receivable from franchisees bearing interest at rates ranging from 5.75% to 10.00%, unsecured and maturing at various dates between March 2009 and February 2016	$ 646,444	$ 637,461
Less current portion	(156,686)	(175,437)
	$489,758	$ 462,024

Estimated principal repayments are as follows:

2009	$ 156,686
2010	149,012
2011	157,508
2012	141,669
2013	35,445
Subsequent years	6,124
	$ 646,444

5. PROPERTY, PLANT AND EQUIPMENT

	2008		
	Cost	Accumulated amortization	Net
Land	$ 580,000	$ -	$ 580,000
Buildings	1,830,274	734,670	1,095,604
Equipment	816,063	502,858	313,205
Automotive	43,960	35,200	8,760
Furniture and fixtures	527,526	409,595	117,931
Leasehold improvements	962,281	496,036	466,245
Computer equipment	19,134	15,817	3,317
Leased premises	767,220	198,264	568,956
	$ 5,546,458	$ 2,392,440	$ 3,154,018

5. **PROPERTY, PLANT AND EQUIPMENT, continued**

	2007		
	Cost	Accumulated amortization	Net
Land	$ 655,000	$ -	$ 655,000
Buildings	1,765,291	680,283	1,085,008
Equipment	871,212	552,288	318,924
Automotive	72,509	55,046	17,463
Furniture and fixtures	623,456	486,430	137,026
Leasehold improvements	1,138,094	672,162	465,932
Computer equipment	18,454	15,363	3,091
Leased premises	767,220	176,394	590,826
	$ 5,911,236	$ 2,637,966	$ 3,273,270

6. **FUTURE INCOME TAXES**

a) The components of future income tax balances are as follows:

	2008	2007 (As restated)
Future income tax assets		
Liability for capital lease	$ -	$ 11,907
Tax basis of property, plant and equipment in excess of carrying amount	267,775	235,689
Cumulative eligible capital available for tax purposes	12,311	13,465
Liability for lease settlement obligations	75,081	115,255
	$ 355,167	$ 376,316

6. **FUTURE INCOME TAXES, continued**

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 29.50% (2007 - 32.12%) to the earnings for the years as follows:

		2008		2007 (As restated)
Earnings for the year before income taxes	$	671,194	$	688,112
Anticipated income tax expense	$	198,002	$	221,022
Permanent expense differences		10,518		2,096
Amortization in excess of CCA		28,114		9,157
Gain on disposal of property, plant and equipment		(1,174)		(53,454)
Future tax related to tax rate change		6,377		40,699
Capitalized lease payments		(49,882)		(41,392)
Other		(23,956)		2,700
Provision for income taxes	$	167,999	$	180,828

7. **BANK INDEBTEDNESS**

A demand operating loan has been authorized by the Bank of Montreal to a maximum of $100,000 and bears interest at the bank's prime lending rate plus 2.875% per annum and is secured by a general security agreement. None of the available credit was outstanding at year end (2007 - $100,000).

The balance in bank indebtedness at December 31, 2008 is due to outstanding cheques in excess of cash balances.

8. LONG TERM DEBT

	2008	2007 (As restated)
Mortgages with fixed interest rates ranging from 5.29% to 12% or the Business Development Bank of Canada's floating rate plus 1%, secured by land and building with a net book value of $2,244,560 (2007 - $2,330,834), maturing on various dates between October 2011 and August 2021.	$ 1,882,586	$ 2,176,967
Chattel mortgage with a floating rate of the bank's prime rate plus 4.25%, secured by equipment with a net book value of $237,657 and a mortgage on the property of a director, maturing on December 9, 2013.	162,250	-
Loans with floating interest rates ranging from the bank's prime rate plus 1.5% to 2% or fixed rates ranging from 5.50% to 7.95%, maturing on various dates between March 2009 and October 2011.	36,023	160,008
Notes payable from lease settlements with fixed interest rates ranging from 0% to 15%, maturing on various dates between March 2009 and March 2015.	503,582	678,243
Loan payable from franchise assistance with a fixed interest rate of 5.5% per annum, maturing October 2011.	157,325	249,931
	2,741,766	3,265,149
Less current portion	(498,832)	(487,417)
	$ 2,242,934	$ 2,777,732

Estimated principal repayments are as follows:

2009	$ 434,024
2010	329,877
2011	278,980
2012	217,684
2013	183,383
Subsequent years	1,297,818
	$ 2,741,766

Included in mortgages payable is $300,000 (2007 - $300,000) due to a company controlled by a director bearing interest at 12%. During the year, $36,000 (2007 - $36,000) of interest was paid to the same company. Related party transactions are in the normal course of operations and have been measured at the exchange amount established and agreed to by the related parties.

The Company received notice from the Bank of Montreal regarding ratio covenants on the chattel mortgage, the balance of which was $162,250 at December 31, 2008. The bank noted that it is not waiving its right to demand repayment of the chattel mortgage should the Company be unable to restore its working capital ratio to at least 1.5:1 (currently at 0.86) by December 31, 2009. This loan has been classified as long term, due to the fact that the bank will not be able to review these results until January 1, 2010, which is more than 1 year from the balance sheet date.

9. CAPITAL LEASE OBLIGATION

	2008	2007
Capital leases with a weighted-average interest rate of 13.5%, matured and bought out in 2008.	$ -	$ 40,364
Less current portion	-	30,394
	$ -	$ 9,970

10. SHARE CAPITAL

Authorized
Unlimited number of Class A voting shares
Unlimited number of first preferred shares, issuable in series
Unlimited number of second preferred shares, issuable in series

Changes in Class A voting shares

	Number	Amount
Balance December 31, 2006	14,746,785	$ 1,076,021
Normal course issuer bid	(95,000)	(6,932)
Balance December 31, 2007	14,651,785	1,069,089
Normal course issuer bid	(22,000)	(1,605)
Balance December 31, 2008	14,629,785	$ 1,067,484

During the year, the Company repurchased 22,000 (2007 – 95,000) of its own shares pursuant to a normal course issuer bid, none (2007 – 85,000) of which were cancelled prior to year end. At December 31, 2008, all (2007 – 10,000) of these shares were held in treasury.

Stock options

Under the Company's stock option plan, common share purchase options may be granted to directors, officers and employees. The Company may grant options to purchase common shares up to a maximum of 10% of the number of issued and outstanding common shares. The granted common share purchase options are subject to vesting requirements as determined upon granting and are subject to expiry five years following the date granted.

As of December 31, 2008, there are no stock options outstanding.

11. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of stock options outstanding. Earnings per share is calculated as follows:

	2008		
	Net and comprehensive earnings	Weighted average common shares	Earnings per share
Basic and diluted	$ 503,195	14,640,896	$ 0.034

	2007 (As restated)		
	Net and comprehensive earnings	Weighted average common shares	Earnings per share
Basic and diluted	$ 507,284	14,693,662	$ 0.035

12. PRIOR PERIOD ADJUSTMENT

During the preparation of the current year financial statements, two errors were noted that related to prior periods. One related to vacation pay accruals that had not been made in prior years as it was determined that they were not material at the time.

The other error arose due to not adjusting a lease settlement obligation for subsequent changes to the estimate of the amount owing to the landlord.

	As previously stated December 31, 2007	Vacation pay adjustment	Lease settlement adjustment	As restated, December 31, 2007
Accounts payable and accrued liabilities	$ 300,305	$ 88,817	$ -	$ 389,122
Future income tax asset	353,700	-	22,616	376,316
Long term debt	2,701,066	-	76,666	2,777,732
Income taxes payable	182,630	(25,969)	-	156,661
General and administrative expenses	1,304,136	(13,183)	-	1,290,953
Lease settlements and franchise assistance	599,821	-	15,989	615,810
Current income tax expense	71,601	3,854	-	75,455
Future income tax expense	108,500	-	(3,127)	105,373
Deficit, beginning of year	(369,754)	(72,179)	(41,187)	(483,120)

13. ACQUISITIONS

On December 1, 2008, the Company acquired a former franchise location in Cold Lake, Alberta that was previously being run as a corporate location. Prior to the acquisition, the results of the restaurant operations were included in Lease settlements and franchise assistance. Subsequent to the acquisition date, restaurant operations have been included in Restaurant revenues and expenses. The Company partially funded the acquisition of the assets of the franchisee by way of a bank loan for $165,000, (see note 8) due December 9, 2013. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed.

Assets acquired	
Equipment	$ 116,368
Leasehold improvements	133,632
	$ 250,000
Consideration – Cash	$ 85,000
Bank loan	165,000
	$ 250,000

13. ACQUISITIONS, continued

On May 1, 2007, the Company acquired a franchise location in Nanton, Alberta and is running it as a corporate location. The results of restaurant operations have been included since that date. The Company acquired the assets of the franchisee in exchange for a note payable due on or before May 1, 2008. The full balance of this note payable was repaid in the current year. The following table summarizes the estimated fair value of the assets acquired.

Assets acquired		
Equipment	$	130,000
Leasehold improvements		170,000
	$	300,000
Consideration – note payable	$	300,000

On November 1, 2007, the Company acquired a franchise location in Golden, British Columbia. The location was at the end of its franchise agreement and it was decided that the agreement would not be renewed. The results of its operations have been included since that date. The aggregate purchase price was $27,235. The following table summarizes the estimated fair value of the assets acquired.

Assets acquired		
Inventory	$	11,935
Equipment deposit		10,300
Equipment		5,000
	$	27,235
Consideration – cash	$	27,235

Subsequent to the acquisition date, the equipment deposit and equipment were written-off as the location has been temporarily closed. Lease payments since the closure have been included in lease settlement and franchise assistance on the income statement.

14. EXIT COSTS

The Company incurs charges for exit costs relating to closed corporate and franchise stores. Discounted liabilities for future lease costs and the fair value of related subleases of restaurants closed after March 1, 2003, are recorded when the restaurant is closed (effective on the cease-use date).

The estimated liability to the Company for exit costs incurred is included as notes payable from lease settlements in long term debt (note 8). Reconciliation of the balance as at December 31, 2008 is as follows:

	2008	2007 (As restated)
Lease settlements, beginning of year	$ 678,243	$ 851,280
Provision for restaurants closed	-	84,839
Adjustment to previous amount recorded	3,756	15,989
Payments, net	(217,905)	(297,570)
Accretion (included in interest expense)	39,488	23,705
	$ 503,582	$ 678,243

The adjustment to previous amount recorded is due to the fact that the monthly lease payments under the lease agreement for one of the restaurants closed in a prior year change on an annual basis. This adjustment is the effect of the new information available regarding estimated lease costs.

15. LEASE SETTLEMENTS AND FRANCHISE ASSISTANCE

Lease settlements and franchise assistance is comprised of:

	2008	2007 (As restated)
Restaurant operations of franchises temporarily under corporate management		
Revenue	$ (2,187,129)	$ (3,133,997)
Expenses	2,132,397	3,399,096
Losses on head leases	217,950	308,108
Impairment write-down of restaurant assets	38,496	42,603
	$ 201,714	$ 615,810

16. CONTRACTUAL OBLIGATIONS

The Company's total obligations, under various property lease agreements, exclusive of occupancy costs, are as follows:

	Gross	Subleases	Net
2009	$ 3,329,762	$ 3,049,763	$ 280,000
2010	2,899,749	2,707,749	192,000
2011	2,195,777	2,047,777	148,000
2012	1,161,803	1,011,003	150,800
2013	1,251,017	1,103,917	147,100
	$ 10,838,108	$ 9,920,209	$ 917,900

17. ADDITIONAL FRANCHISE INFORMATION

Total number of locations:

	2008	2007
Beginning of the year	42	41
New franchises sold	-	2
Franchises resold by franchiser	2	1
Franchises acquired by franchiser	-	(2)
Franchises temporarily closed	(1)	-
	43	42
Number of corporate run locations	5	8
	48	50

18. FINANCIAL INSTRUMENTS

Fair value

The Company's carrying value of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these instruments.

The carrying value of notes receivable approximates fair value as the interest rates are consistent with the current rates offered for debt with similar terms and adjusted for the credit risk of the particular borrower.

The carrying value of long term debt approximates the fair value as the interest rates are consistent with the current rates offered to the company for debt with similar terms.

Interest rate risk

The Company is exposed to interest rate risk through a combination of fixed and floating rate borrowings and lendings. The fixed rate lendings and borrowings are subject to interest rate price risk, as the value will fluctuate as a result of changes in the market rate. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

The Company manages interest rate risk by setting interest rate terms on notes receivable to rates that are adjusted for the credit worthiness of the franchisee. Furthermore, the Company seeks to manage its exposure to interest rate risk by managing its mix of fixed and floating rate instruments based on capital markets and business conditions.

A change in interest rate of 1% as of December 31, 2008 would cause:

- a $185 change in the interest expense on bank balances and bank indebtedness; and
- a $7,903 change in the interest expense on variable rate long term debt.

18. FINANCIAL INSTRUMENTS, continued

Credit risk

Financial instruments that potentially subject the Company to credit risk principally consist of cash, accounts receivable, and notes receivable.

Cash is held with reputable Canadian chartered banks, from which management believes the risk of loss to be minimal.

Accounts receivable primarily consist of amounts due from franchisees and vendors. It is management's experience that the credit worthiness of the Company's accounts receivable is good and the risk of loss is minimal. Of the total accounts receivable balance, $37,274 is past due.

Notes receivable represent amounts due from franchisees for advances of funds from the Company. It is management's experience that the credit worthiness of the Company's notes receivable is good and the risk of loss is minimal.

Concentrations of credit risk with respect to accounts receivable and notes receivable are limited due to the fact that the Company has a significant number of franchisees and does business with many vendors from which rebate amounts are due. The maximum exposure to credit risk is equal to the carrying value of cash, accounts receivable, and notes receivable.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

Through forecasting cash flows and anticipating investing and financing activities, the Company manages liquidity risk. The Company forecasts cash flows by preparing cash budgets, which are reviewed by management. Management is also actively involved in the review and approval of planned expenditures.

The Company's working capital ratio is 0.86; meaning that the Company has less current assets than current liabilities. As a result, the Company may not be able to meet its current obligations as they become due, unless it increases its working capital. The Bank of Montreal has also given the Company notice that it may demand repayment of the Company's chattel mortgage if the working capital ratio is not restored to at least 1.5:1 by December 31, 2009. As such, the Company's liquidity risk is high.

19. CAPITAL MANAGEMENT

The Company considers capital to be the components of shareholders' equity.

The Company's objectives when managing capital are to maximize the entity's ability to continue as a going concern and continue to have sufficient capital to expand and open new locations. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase or issue shares, acquire or pay down debt, or move capital into short-term investments (such as guaranteed investment certificates).

The Company monitors capital on the basis of the balance within cash and is currently subject to externally imposed capital requirements. These externally imposed capital requirements are debt covenants specifying that the Company maintain a minimum current ratio of 1.5:1, a debt to equity ratio not to exceed 4:1, and a long term debt to tangible equity ratio not to exceed 2.5:1. As at December 31, 2008 the Company was in violation of the working capital/current ratio externally imposed capital requirement.

Two mortgage balances totaling $1,142,680 (2007 - $1,231,720), for which the Business Development Bank of Canada ("BDC") is the lender, are subject to a covenant requiring a minimum working capital ratio of at least 1:1. The Company has obtained a waiver from the BDC, waiving their right to call this debt within the next year.

The chattel mortgage of $162,250 is subject to a covenant requiring a minimum working capital ratio of at least 1.5:1.

20. RECENT ACCOUNTING PRONOUNCEMENTS

The Accounting Standards Board (AcSB) has approved new accounting recommendations which have not yet come into effect. The following is a summary of the new recommendations that will affect the Company:

Intangible Assets

The AcSB has issued new Section 3064, "Goodwill and Intangible Assets" which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. In particular, this section restricts the ability of a company to recognize internal costs as deferred assets. This new standard is effective for fiscal years beginning on or after October 1, 2008. Management is currently considering whether this new standard will have any effect on the Company's financial statements.

Business Combinations

The following standards were issued by the AcSB during 2009 and will be effective for the Company beginning on January 1, 2011:

Section 1582, "Business Combinations" will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" and replace the existing Section 1581, "Business Combinations". The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests".

Section 1601, "Consolidated Financial Statements" establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, "Consolidated Financial Statements". Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, "Business Combinations" and Section 1602, "Non-Controlling Interests".

Section 1602, "Non-controlling Interests" establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, "Business Combinations" and Section 1601, "Consolidated Financial Statements".

These sections will not impact the Company as it presently operates, however they will be effective if the Company undertakes a business combination in the future.

Convergence with International Financial Reporting Standards

The Company will be required to report under International Financial Reporting Standards on January 1, 2011, though specific requirements of the transition continue to be under review by the AcSB. The Company is monitoring the requirements but is unable to assess the impact on the financial statements.

21. **COMPARATIVE AMOUNTS**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

April 28, 2009

Management's Discussion and Analysis

The following discussion of the financial position and results of operations should be read in conjunction with the audited financial statements and related notes attached thereto.

Our Business

The Company is one of Canada's leading franchisors of mid-scale full-service family restaurants. It is a franchisor and operator of the Humpty's Family Restaurants chain ("Humpty's").

The Humpty's chain is comprised of full-service family restaurants featuring a full range of breakfast, lunch and dinner items available throughout the operating day. The concept's menu is mid-scale family distinguished by an extensive and unique breakfast-related selection featuring several items original to the chain.

At present, the Company's focus is to grow consistently as a mature and stable organization through restaurant expansion. The Company continues due diligence in finding quality locations and qualified franchise owners. As always, a significant amount of emphasis is placed on management support, staff training and local marketing initiatives.

Results of Operations

Analysis of Income for the Year

Revenues

Total revenue for fiscal 2008 was $7,004,516, which represents a 44.8% decrease from fiscal 2007 ($12,681,360). The decrease was largely due to the sale of our high volume Restaurant, Convenience Store and Gas location (Red Deer, AB) on December 1, 2007. For the eleven months from January – November 2007 this location contributed $5,902,806 to the total revenue. Royalties and Advertising fees increased 3.1% and 2.8% respectively, which indicates overall increased sales in our Franchise locations for 2008.

Despite the decrease in revenues in fiscal 2008 our operating expenses improved. In fiscal 2007 operating expenses were 97.7% of revenue. This compares to operating expenses for fiscal 2008 being 91.3% of revenue. This significant decrease in operating expenses contributed an increase of $321,628 to earnings (before effects of disposal of assets and income taxes).

The expense item recording the most positive improvement was "Lease settlements and franchise assistance". This category was reduced by $414,096 or 67.2% in fiscal 2008. The plan for 2008 was to

reduce this category in the 25% - 30% range; therefore, we are very pleased to have greatly exceeded that projection.

Advertising participation fees used to fund corporate advertising campaigns were $785,362, up 2.8% over those of 2007. Rebates and other income totalled $499,620 down 14.0% from those posted in the prior year.

Franchise sales were $6,000 and $60,000 in 2008 and 2007 respectively.

Expenses

Corporate restaurant operation costs decreased by $5,489,185 or 60.3% over the previous year, to total $3,621,003 for fiscal 2008. The decrease was largely due to the sale of our high volume Restaurant, Convenience Store and Gas location (Red Deer, AB) on December 1, 2007.

Analysis of restaurant operation costs	2008	2007 (as restated)
Food Purchases	1,161,065	1,995,563
Gas Purchases	881	3,930,616
Salaries and employee benefits	1,426,329	1,768,136
Rents	253,938	341,486
Telephone and utilities	178,734	227,417
Repairs and maintenance equipment and building	133,034	190,059
Advertising Restaurants	203,201	329,095
Miscellaneous	263,821	327,816
Total restaurant, gasoline and convenience store	3,621,003	9,110,188

Analysis of restaurant expenses excluding Red Deer location	2008		2007	
Restaurant Sales	3,834,333		3,546,148	
Food Purchases	1,161,065	30.3%	1,085,591	30.6%
Salaries and employee benefits	1,426,329	37.2%	1,315,101	37.1%
Rents	253,938	6.6%	225,061	6.3%
Telephone and utilities	178,734	4.7%	150,119	4.2%
Repairs and maintenance equipment and building	133,034	3.5%	139,708	3.9%
Advertising Restaurants	203,201	5.3%	222,389	6.3%
Miscellaneous	263,821	6.9%	234,807	6.6%
Total restaurant	3,620,122	94.4%	3,372,776	95.1%
Restaurant earnings before interest on long-term debt, amortization and taxes:	214,211	5.6%	173,372	4.9%

As you can see in the illustration above, Restaurant earnings before interest on long-term debt, amortization and taxes increased by .07% in 2008.

General and administrative expenses totalled $1,260,851 in fiscal 2008, down $30,102 from $1,290,953 posted the prior year. This represents the costs of operating the public company, managing the business and franchise support.

Analysis of general and administrative costs	2008	2007 (as restated)
Salaries and employee benefits	712,592	767,782
Professional fees	179,077	129,933
Franchise support	87,646	105,558
Office and miscellaneous	281,536	287,680
Total general and administrative	1,260,851	1,290,953

Advertising and promotion was $826,810, a decrease of 3.8% from 2007 levels. The cost of advertising was in excess of the advertising participation fees of $785,362 generated from the franchise locations. Management recognizes the key importance of name recognition and as such has continued its efforts in producing effective advertising campaigns.

Analysis of advertising and promotion costs	2008	2007 (as restated)
Advertising national	808,120	847,264
Miscellaneous	18,690	12,100
Total advertising and promotion	826,810	859,364

In 2008, the Company did not open any new franchise locations, closed one franchise location, re-franchised two corporate locations and closed one location being run corporately ending the year with 48 locations. (see below)

The Company re-franchised a location on Yellowhead Trail in Edmonton, AB. on April 30, 2008.

The Company re-franchised a location on Roper Road in Edmonton, AB. on August 31, 2008.

The Company closed a location in Okotoks, AB. on July 31, 2008. With less than 3 years remaining on the lease the Company will not re-open as a Humpty's. The location has been sub-leased to operate as a Vietnamese restaurant.

The Company re-purchased a location in Golden, B.C. on November 1, 2007. The location was at the end of its franchise agreement. Subsequently the location has been closed. Lease payments since the closure have been included in lease settlements and franchise assistance on the income statement.

The Company re-purchased a franchise location in Cold Lake, AB. on December 1, 2008 that was previously being run corporately. Prior to the re-purchase the operating results of the restaurant were

included in lease settlements and franchise assistance. Subsequent to the re-purchase, the operations were recorded in Restaurant revenues and expenses.

Although lease settlements and franchise assistance will always be a part of doing business in our Company these costs were greatly reduced in 2008 and should be further reduced in future years.

Interest on long-term debt totalled $195,982, which was a decrease of $41,370 from 2007 reflecting continued payments on mortgages and loans throughout 2008.

Financial Position and Liquidity

The Company's working capital ratio is 0.86:1 meaning that the Company has less current assets than current liabilities. As a result, the Company may not be able to meet its current obligations as they become due, unless it increases its working capital. The sale of a Corporate restaurant in March 2009 has brought the Company's working capital ratio back to a ratio of at least 1:1.

The debt to equity ratio decreased to 1.96 to 1 from 3.84 to 1 over the same period with available funds being used primarily to repay long-term debt.

The Company re-purchased the Nanton, AB. location on May 1, 2007 for $300,000 by way of a note payable due on or before May 1, 2008. The Company paid out the $300,000 note on April 16, 2008.

The Company re-purchased a franchise location in Cold Lake, AB. on December 1, 2008 that was previously being run corporately for $250,000, of which $165,000 was paid by way of bank loan and $85,000 in cash.

EBITDA decreased from $1,204,901 in 2007 to $1,155,448 in 2008.

Risks and Uncertainty

The restaurant and franchise industry is very competitive. Not only are quality locations at a premium, so is the availability of qualified franchisees.

Furthermore, expansion into geographical areas that lack brand recognition for the Humpty's chain creates uncertainty with regards to customer acceptance. The Company researches and evaluates, using strict selection criteria, each proposed franchise to minimize this risk.

The Company has guaranteed leases for a number of Humpty's stores. If franchises, to which the Company is the lease guarantor, are unable to pay their lease obligations, the obligations become that of the Company. Should a lease obligation fall to the Company, it will either negotiate a settlement to end the lease, operate it corporately or re-franchise the store.

The Company's total obligations, under various property lease agreements, exclusive of occupancy costs, are as follows:

	Gross	Subleases	Net
2009	$ 3,329,762	$ 3,049,763	$ 280,000
2010	2,899,749	2,707,749	192,000
2011	2,195,777	2,047,777	148,000
2012	1,161,803	1,011,003	150,800
2013	1,251,017	1,103,917	147,100
	$ 10,838,108	$ 9,920,209	$ 917,900

The current downturn in the economy has had some negative impact on our sales particularly in northern B.C. and Alberta, although not to the extent that it has for high-end restaurants. Consumers continue to dine out, as it is still an "event", however they are not spending as much. Humpty's will benefit due to our mid-scale casual restaurant classification, offering similar products at lower prices. The Company has received more inquiries for franchise information in the past five months than in the previous two years. When there is a downturn in the economy there are layoffs. Many of those who receive severance packages begin looking for business opportunities.

We believe the economy is going through a market correction and the positive impact is that being an entrepreneur is now affordable again. Whether it's the cost of leasing, material or skilled trades people, costs have almost reverted to where they were a few years ago. Many of our locations will be conducting renovations in 2009 because now it is more affordable and trades people are available.

The extreme labour shortage experienced in Western Canada for the past three years has improved substantially. We are now able to staff our locations with more qualified employees thus improving our service and quality. This will further enhance our ability to maintain our revenue stream over the next year.

Change in Accounting Policy

On January 1, 2008, the Company adopted, without restating prior periods, the following standards of the CICA Handbook: Section 1400 - "General Standards of Financial Statement Presentation", Section 1535 - "Capital Disclosures", Section 3031 - "Inventories", Section 3862 - "Financial Instruments Disclosure" and Section 3863 - "Financial Instruments Presentation".

Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements to fiscal years beginning on or after January 1, 2008. The implementation of this new standard did not impact the Company's financial results, but did result in additional disclosure in the audited financial statements.

Section 1535 establishes standards for disclosing information regarding the capital of the entity and how it is managed. The section specifies the disclosure of i) objectives, policies, and processes for managing capital by the entity; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with capital requirements; and iv) if it has not complied, the consequences of such non-compliance. The implementation of this new standard did not impact the Company's financial results, but did result in additional disclosure in the Audited Financial Statements.

Section 3862 and 3863 replace section 3861 "Financial Instruments - Disclosure and Presentation" which revises and enhances financial instrument disclosure requirements and leaves unchanged its presentation requirements. The objective of Section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments to the Company's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows. The implementation of these new standards did not impact the Company's financial results, but did result in additional disclosure in the Audited Financial Statements.

Section 3031 is a replacement of the CICA handbook Section 3030. Under the requirements of the new standard, inventories are measured at the lower of cost and net realizable value. Cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects are assigned by using a specific identification of their individual costs. Consistent use of either first-in, first-out or weighted average cost is prescribed for other inventories, with a reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories. The implementation of this new standard did not materially impact the Company's financial results.

Recent Accounting Pronouncements

The Accounting Standards Board (AcSB) has approved new accounting recommendations, which have not yet come into effect. The following is a summary of the new recommendations that will affect the Company.

Intangible Assets

The AcSB has issued new Section 3064, "Goodwill and Intangible Assets" which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. In particular, this section restricts the ability of a company to recognize internal costs as deferred assets. This new standard is effective for fiscal years beginning on or after October 1, 2008. Management is currently considering whether this new standard will have any effect on the Company's financial statements.

Business Combinations

The following standards were issued by the AcSB during 2009 and will be effective for the Company beginning on January 1, 2011:

Section 1582, "Business Combinations" will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" and replace the existing Section 1581, "Business Combinations". The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests".

Section 1601, "Consolidated Financial Statements" establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, "Consolidated Financial Statements". Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582 "Business Combinations" and Section 1602 "Non-controlling Interests".

Section 1602 "Non-controlling Interests" establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, "Business Combinations" and Section 1601, "Consolidated Financial Statements".

These sections will not impact the Company as it presently operates, however they will be effective if the Company undertakes a business combination in the future.

Convergence with International Financial Reporting Standards

A decision of the CICA Accounting Standards Board (the "AcSB") will require the Company to report under International Financial Reporting Standards on January 1, 2011, though specific requirements of the transition continue to be under review by the AcSB. Aside from monitoring the requirements, management has not begun to assess the impact of these changes on the financial statements.

Financial Instruments

Fair value

The Company's carrying value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these instruments.

The carrying value of notes receivable approximates fair value, as the interest rates are consistent with the current rates offered for debt with similar terms and adjusted for the credit risk of the particular borrower.

The carrying value of long-term debt approximates the fair value, as the interest rates are consistent with the current rates offered to the company for debt with similar terms.

The Company issues notes to franchisees that are experiencing short-term liquidity issues, in order to allow them to continue to operate and to sustain or improve the Humpty's brand name.

Long-term debt is obtained primarily to help the Company to increase expansion and for renovations of locations.

Interest rate risk

The Company is exposed to interest rate risk through a combination of fixed and floating rate borrowings and lendings. The fixed rate lendings and borrowings are subject to interest rate price risk, as the value will fluctuate as a result of changes in the market rate. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

The Company manages interest rate risk by setting interest rate terms on notes receivable to rates that are adjusted for the credit worthiness of the franchisee. Furthermore, the Company seeks to manage its exposure to interest rate risk by managing its mix of fixed and floating rate instruments based on capital markets and business conditions.

Credit risk

Financial instruments that potentially subject the Company to credit risk principally consist of cash, accounts receivable, and notes receivable.

Cash is held with a reputable Canadian chartered bank, from which management believes the risk of loss to be minimal.

Accounts receivable primarily consist of amounts due from franchisees and vendors. It is management's experience that the credit worthiness of the Company's accounts receivable is good and the risk of loss is minimal.

Notes receivable represent amounts due from franchisees for advances of funds from the Company. It is management's experience that the credit worthiness of the Company's notes receivable is good and the risk of loss is minimal.

Concentrations of credit risk with respect to accounts receivable and notes receivable are limited due to the fact that the Company has a significant number of franchisees and does business with many vendors from which rebate amounts are due. The maximum exposure to credit risk is equal to the carrying value of cash, accounts receivable, and notes receivable.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. Through forecasting cash flows and anticipating investing and financial activities, the Company manages liquidity risk. The Company forecasts cash flows by preparing cash budgets, which are reviewed by management. Management is also actively involved in the review and approval of planned expenditures.

Two mortgage balances totaling $1,142,680 (2007 - $1,231,720), for which the Business Development Bank of Canada ("BDC") is the lender, are subject to a covenant requiring a minimum working capital ratio of at least 1:1. The Company has obtained a waiver from the BDC, waiving their right to call this debt within the next year.

The chattel mortgage of $162,250 is subject to a covenant requiring a minimum working capital ratio of at least 1.5:1.

Subsequent Events

Subsequent to the end of the year, on March 1, 2009 the Company sold a corporate location in Calgary for $360,000.

Outlook

The Company intends to focus on improving what it has by replacing under performing franchise owners with more motivated and progressive entrepreneurs, while continuing to ensure profitability through support of its core operations. It will cautiously look at every opportunity to develop new locations particularly in Ontario and the Atlantic provinces.

Supplementary Information

Related Party Transactions

Included in mortgages payable is $300,000 (2007 – $300,000) due to a company controlled by a director bearing interest at 12%. During 2008 $36,000 (2007 - $36,000) of interest was paid to the same company. These funds were advanced as a second mortgage on the purchase of the Prince Albert property. Related party transactions are in the normal course of operations and have been measured at the exchange amount established and agreed to by the related parties.

Share capital

Authorized

Unlimited number of Class A voting shares
Unlimited number of first preferred shares, issuable in series
Unlimited number of second preferred shares, issuable in series

Issued

	2008		2007	
	Issued	Amount	Issued	Amount
Common shares				
Beginning of year	14,651,785	$ 1,069,089	14,746,785	$ 1,076,021
Shares repurchased	(22,000)	(1,605)	(95,000)	(6,932)
End of year	14,629,785	$ 1,067,484	14,651,785	$ 1,069,089

During the year, the Company repurchased 22,000 (2007 – 95,000) of its own shares pursuant to a normal course issuer bid, none (2007 – 95,000) of which were cancelled prior to year-end. At December 31, 2008, 22,000 (2007 – nil) of these shares were held in treasury. Subsequent to December 31, 2008 these shares were cancelled.

Stock options

Under the Company's stock option plan, common share purchase options may be granted to directors, officers and employees. The Company may grant options to purchase common shares up to a maximum of 10% of the number of issued and outstanding common shares. The granted common share purchase options are subject to vesting requirements as determined upon granting and are subject to expiry five years following the date granted.

As of December 31, 2008, there are no share options outstanding.

Normal Course Issuers Bid

In September 2002 the Company was granted permission to commence a Normal Course Issuers Bid that meant it could repurchase for cancellation up to 738,189 shares of its own capital stock. In September 2003, November 2004, November 2005, December 2006 and November 2007 the Company renewed its Bid to repurchase its capital stock. Since 2002 the Company has repurchased and cancelled 565,000 of its own shares. Since the end of fiscal 2008 the Company has not repurchased any additional shares. By purchasing these shares for cancellation the Company is enhancing shareholder value.

Disclosure Controls and Procedures

The Company has established and maintains disclosure controls and procedures. The CEO and CFO of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2008 and have concluded that material information relating to the Company would be made known to them by others within those entities. There were no changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting in 2008.

Performance at a Glance - Quarterly
Last 8 Quarters

	March 2008	June 2008	September 2008	December 2008	YTD
Total Revenue (000s)	$1,685	$1,809	$1,846	$1,665	$7,005
Total Assets (000s)	$5,276	$4,832	$4,793	$4,672	$4,672
Total Long-term liabilities (000s)	$2,648	$2,331	$2,190	$2,308	$2,308
EBITDA (000s)	$234	$429	$310	$182	$1,155
Net income (loss) (000s)	$94	$233	$132	$44	$503
Shares Outstanding	14,651,785	14,631,785	14,631,785	14,629,785	14,629,785
Earnings (loss) per share, fully diluted	$.006	$.016	$.009	$.003	$.034
Working Capital (000s)	$(114)	$62	$18	$(111)	$(111)
Market price at year end	$.20	$.25	$.30	$.17	$.17
	March 2007	**June 2007**	**September 2007**	**December 2007**	**YTD**
Total Revenue (000s)	$2,974	$3,442	$3,676	$2,589	$12,681
Total Assets (000s)	$5,053	$5,321	$5,289	$5,233	$5,233
Total Long-term liabilities (000s)	$3,117	$3,001	$2,869	$2,778	$2,788
EBITDA (000s)	$263	$314	$251	$377	$1,205
Net income (loss) (000s)	$101	$126	$92	$188	$507
Shares Outstanding	14,717,785	14,691,785	14,661,785	14,651,785	14,651,785
Earnings (loss) per share, fully diluted	$.007	$.009	$.006	$.013	$.035
Working Capital (000s)	$(259)	$(536)	$(494)	$(242)	$(242)
Market price at year end	$.20	$.19	$.18	$.21	$.21

Performance at a Glance
5 Year Summary

	2008	2007	2006	2005	2004
Total Revenue	$7,005	$12,681	$11,325	$8,439	$8,019
Total Assets	$4,672	$5,233	$5,035	$4,558	$7,528
Total Long-term liabilities	$2,308	$2,788	$3,162	$3,059	$4,899
Franchises	43	42	41	45	45
Franchisor-owned locations	5	8	9	8	6
Franchise revenue (000s)	$3,170	$3,232	$3,176	$3,276	$3,219
Increase (decrease)	(1.9%)	1.8%	3.0%	1.7%	(5.6%)
Franchise revenue per franchise (000s)	$74	$77	$76	$73	$72
EBITDA (000s)	$1,155	$1,205	$796	$790	$803
Net income (loss) (000s)	$503	$507	$126	($374)	$20
Earnings (loss) per share, fully diluted	$.034	$.035	$.009	($.025)	$.001
Working capital (000s)	$(111)	$(242)	$(390)	$55	$(713)
Market price at year end	$.17	$.21	$.19	$.19	$.16

Additional information about Humpty's Restaurants International Inc. is filed with the Canadian Securities Commissions, including periodic quarterly reports. Information is also available online at www.Sedar.com.

Humpty's Restaurants International Inc.
Corporate Information

Head Office

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E-mail: info@humptys.com
Website: www.humptys.com

Auditors

Hudson LLP
Chartered Accountants
Calgary, Alberta

Legal Council

Corporate Matters:
McLeod & Company
Barristers & Solicitors
Calgary, Alberta

Franchise Matters:
Yuzda Schuster & Bresky
Barristers & Solicitors
Calgary, Alberta

Transfer Agent

Computer Share
Trust Company of Canada
Suite 600 Western Gas Tower
530-8th Avenue
Calgary, Alberta T2P 3S8

Corporate Banking

Bank of Montreal
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

ATB Financial
Calgary, Alberta

Board of Directors

Don Koenig*	Chairman President, CEO Humpty's Restaurants Int'l Inc. Calgary, Alberta
Janice Koenig	Vice-President, CFO Humpty's Restaurants Int'l Inc. Calgary, Alberta
Bert Messier*	President BECA International Inc. Calgary, Alberta
Carolyn Messier	Vice-President BECA International Inc. Calgary, Alberta
Albert Jakubec*	Private Investor Calgary, Alberta

*Audit Committee Members

Officers and Executive Management

Don Koenig	President, CEO
Janice Koenig	Vice-President, CFO
Tom Scappatura	Corporate Controller

Annual General Meeting

To be announced

Stock Exchange

Exchange: TSX
Trading Symbol: HMP

Fiscal Year End: December 31st